

No. 13/ 27/DPM

Jakarta, December 1, 2011

CIRCULAR LETTER

To

ALL SHARIA COMMERCIAL BANKS, SHARIA BUSINESS UNITS,
AND INTERMEDIARIES

Subject : Procedures for Reverse Repo Transaction of Sovereign
Sharia Securities with Bank Indonesia in the Context
of Sharia Open Market Operations

In relation to the stipulation of Bank Indonesia Regulation Number 10/36/PBI/2008 dated December 10, 2008 concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia Year 2008 Number 197, Supplement to the State Gazette of the Republic of Indonesia Number 4944) as amended the latest by Bank Indonesia Regulation Number 13/24/PBI/2011 dated December 10, 2011 concerning Second Amendment to Bank Indonesia Regulation Number 10/36/PBI/2008 dated December 10, 2008 concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia Year 2011 Number 119), it is necessary to enact provisions concerning procedures for reverse repo transaction of Sovereign Sharia Securities with Bank Indonesia in the context of Sharia Open Market Operations in Bank Indonesia Circular Letter as follows:

I. GENERAL PROVISIONS

Terminologies used in this Bank Indonesia Circular Letter are defined as follows:

1. Bank shall be Sharia Commercial Bank and Sharia Business Unit.
2. Sharia Commercial Bank shall be Sharia Commercial Bank as referred to in the applicable Act concerning Sharia Banking.
3. Sharia Business Unit shall be Sharia Business Unit as referred to in the applicable Laws concerning Sharia Banking.
4. Intermediary shall be rupiah and foreign currency money market broker and capital market broker appointed by the Minister of Finance of the Republic of Indonesia as main dealers.
5. Sovereign Sharia Securities, hereinafter briefly referred to as SBSN, shall be sovereign securities issued based on the sharia principles, as evidence of placement of SBSN asset in rupiah.
6. Long-Term SBSN shall be SBSN with a tenure of more than 12 (twelve) months with the payment of return in the form of coupon and/or discount.
7. Short-Term SBSN or Sharia Treasury Bill shall be SBSN with a tenure of up to 12 (twelve) months with the payment of return in the form of coupon and/or discount.

8. Sharia Monetary Operations, hereinafter briefly referred to as OMS, shall be implementation of monetary policies by Bank Indonesia in the context of monetary control through open market operation activity and the provision of standing facilities based on the sharia principles.
9. Haircut shall be a margin stipulated by Bank Indonesia as a deducting factor of SBSN price.
10. Bank Indonesia-Real Time Gross Settlement System, hereinafter referred to as BI-RTGS System, shall be an electronic fund transfer system in rupiah among participants as referred to in Bank Indonesia provisions concerning BI-RTGS System.
11. Bank Indonesia-Scripless Securities Settlement System, hereinafter shall be briefly referred to as BI-SSSS, shall be a system for transactions with Bank Indonesia including the administration thereof and electronic administration of securities as referred to in Bank Indonesia provisions concerning BI-SSSS.
12. SBSN Reverse Repo Transaction shall be a transaction of the purchase of SBSN by a Bank from Bank Indonesia, with a sell-back condition by the Bank at an agreed price and within an agreed period.
13. Demand Deposit Account shall be a demand deposit account of a Bank in rupiah with Bank Indonesia.

14. Securities Account shall be a securities account of a Bank used to record the ownership of negotiable securities in the Central Registry.
15. Commercial Bank Daily Report System, hereinafter shall be referred to as LHBUS System, shall be facility for Bank reporting to Bank Indonesia on a daily basis, including the provision of money market information and announcements from Bank Indonesia.
16. Financing to Deposit Ratio, hereinafter briefly referred to as FDR, shall be ratio of financing provided to third parties in rupiah and foreign currencies, excluding financing for other banks, to third party funds including demand deposit, savings, deposits in rupiah and foreign currencies, excluding inter-bank transactions.
17. Margin shall be the profit rate per annum agreed by the parties conducting a SBSN Reverse Repo Transaction.

II. SBSN REVERSE REPO TRANSACTION

1. SBSN Reverse Repo Transaction shall be a transaction conducted by Bank Indonesia in the context of liquidity absorption of a Bank or monetary contraction.
2. The characteristics of SBSN Reverse Repo Transaction shall be as follows:
 - a. SBSN Reverse Repo Transaction shall be conducted by applying *al bai'* (sale and purchase) contract enclosed with *al wa'd* (covenant) of the Bank to Bank

Indonesia, in a separate document, to resale SBSN within a certain period of time and at an agreed price.

- b. The minimum period of SBSN Reverse Repo Transaction shall be 1 (one) day and the maximum period shall be 12 (twelve) months expressed in a number of days calculated as from 1 (one) day following the settlement date up to the maturity date.
- c. SBSN price shall be stipulated and announced by Bank Indonesia in BI-SSSS and/or other facilities by taking into account, among others, the market price of each type and series of SBSN.
- d. Bank Indonesia shall stipulate the percentage of Haircut for each type and series of SBSN in order to determine the settlement value of SBSN Reverse Repo Transaction (first leg).
- e. Haircut shall be announced by Bank Indonesia through BI-SSSS, LHBUS System, and/or other facilities.
- f. Margin of SBSN Reverse Repo Transaction shall be calculated at the time of the second leg settlement of SBSN Reverse Repo Transaction.
- g. The right to receive coupons or return of SBSN subject to the reverse repo during the period of the SBSN Reverse Repo Transaction shall remain the possession of Bank Indonesia.

3. SBSN subject to the reverse repo shall consist of Long-Term SBSN and Short-Term SBSN.
4. SBSN Reverse Repo Transaction Documents
 - a. Banks may submit SBSN Reverse Repo Transaction after signing the Covenant (*Wa'd*) to Resale SBSN in the context of SBSN Reverse Repo Transaction, adequately stamped as indicated in the Appendix 1 which forms an inseparable part of this Bank Indonesia Circular Letter.
 - b. The covenant (*wa'd*) as referred to in letter (a) shall be signed by the Board of Directors of the Bank or Officials of the Bank authorized by the Board of Directors under a Power of Attorney to submit SBSN Reverse Repo Transaction.
 - c. The covenant (*wa'd*) as referred to in letter (a) shall be delivered to Bank Indonesia along with the required supporting documents.
 - d. The supporting documents required at the time of the signing the covenant (*wa'd*) shall include:
 - 1) photocopy of Bank statutes; and
 - 2) photocopy of valid personal identification cards in the form of Identity Cards (KTP) or passports of the members of the Board of Directors, Chief Executive Officer (CEO), and/or Officials of the Bank granted authority to sign the Covenant (*wa'd*).

- e. The covenant (*wa'd*) which has been signed shall be effective continuously insofar as no amendment is made to the contents of the covenant and to the data of the supporting documents.
 - f. The documents as referred to in letter a and letter d shall be delivered with a cover letter addressed to:

The Director of Monetary Management (*Direktur Pengelolaan Moneter*)

Bank Indonesia

Menara Sjafruddin Prawiranegara, 11th Floor

Jl M.H Thamrin No.2

Jakarta -10350
5. Banks may participate in SBSN Reverse Repo Transaction under the following provisions:
- a. The requirements to be met shall be as follows:
 - 1) having a minimum FDR of 80% (eighty percent) based on the calculation of Bank Indonesia;
 - 2) having active status as a participant of BI-SSSS and BI-RTGS System;
 - 3) not being subject to any sanction of temporary suspension of its participation in OMS activity;
 - 4) having a Demand Deposit Account; and
 - 5) having a Securities Account.
 - b. The Bank may submit bids of SBSN Reverse Repo Transaction directly and/or through the Intermediary.

- c. The Bank may submit SBSN Reverse Repo Transaction to Bank Indonesia for its own benefit.
 - d. The Intermediary shall submit SBSN Reverse Repo Transaction bid for the interest of the Bank.
- 6. The method of SBSN Reverse Repo Transaction shall be as follows:
 - a. SBSN Reverse Repo Transaction shall be conducted by using an auction mechanism through the BI-SSSS.
 - b. The auction for SBSN Reverse Repo Transaction shall be implemented by using the following methods:
 - 1) Fixed rate tender, in which the Margin of the SBSN Reverse Repo Transaction is determined by Bank Indonesia.
 - 2) Variable rate tender, in which the Margin of the SBSN Reverse Repo Transaction is submitted by Banks and Intermediaries.
- 7. Announcement and implementation of SBSN Reverse Repo Transaction:
 - a. SBSN Reverse Repo Transaction may be conducted on every business day.
 - b. The window time for SBSN Reverse Repo Transaction shall be from 08.00 up to 16.00 Western Indonesia Time.
 - c. Bank Indonesia shall announce SBSN Reverse Repo Transaction auction plan by no later than the window

time through BI-SSSS, LHBUS System, and/or other facilities determined by Bank Indonesia.

d. The announcement of the SBSN Reverse Repo Transaction auction plan shall include, among other things:

- 1) the auction date;
- 2) the period and maturity date;
- 3) the auction method;
- 4) the indicative targets (if the auction is conducted by using variable rate tender method);
- 5) the Margin of SBSN Reverse Repo Transaction (if the auction is conducted by using fixed rate tender method);
- 6) the type and series of SBSN subject to the reverse repo;
- 7) Haircut;
- 8) the window time; and
- 9) the date and time of the settlement.

8. The Submission of Bids for SBSN Reverse Repo Transaction

a. Banks shall submit bids for SBSN Reverse Repo Transaction directly and/or through an Intermediary to Bank Indonesia through BI-SSSS within the determined window time.

b. The bid for SBSN Reverse Repo Transaction submitted shall include, among other things:

- 1) the nominal value of the transaction for auction using fixed rate tender method; or
 - 2) the nominal value of the transaction and the Margin of SBSN Reverse Repo Transaction for auction using variable rate tender method;
- for each period of SBSN Reverse Repo Transaction to be conducted.
- c. Quantity bids submitted by Banks and Intermediaries shall be in the minimum value of Rp1,000,000,000.00 (one billion rupiah) and the remaining shall be in a multiple of Rp100,000,000.00 (one hundred million rupiah).
 - d. In the event that the auction is conducted by using variable rate tender method, the bids for the Margin of SBSN Reverse Repo Transaction bid shall be submitted in a multiple of 0.01% (one per ten-thousandth).
 - e. Banks and Intermediaries shall be responsible for the accuracy of data of SBSN Reverse Repo Transaction bids submitted to Bank Indonesia.
 - f. Banks and Intermediaries shall be prohibited from cancelling bids which have been submitted to Bank Indonesia.
9. The Determination of SBSN Reverse Repo Transaction Auction Winner

- a. In the event that SBSN Reverse Repo Transaction auction is conducted by using fixed rate tender method, the quantity of SBSN Reverse Repo Transaction won shall be calculated by using the following methods:
 - 1) A Bank may be appointed as the winner for the entire quantity bid; or
 - 2) if necessary, the bid of quantity submitted by a Bank may be selected as the winner partially in a proportionate calculation by rounding the amount to the smallest nominal amount of Rp1,000,000.00 (one million rupiah).
- b. In the event that SBSN Reverse Repo Transaction auction is conducted by using variable rate tender method, the determination of SBSN Reverse Repo Transaction quantity won shall be calculated by using the following methods:
 - 1) Bank Indonesia shall determine the highest acceptable Margin of SBSN Reverse Repo Transaction (Stop Out Rate/SOR); and
 - 2) Bank Indonesia shall determine the quantity won by using the following methods:
 - a) in the event that the Margin of SBSN Reverse Repo Transaction submitted by the Bank is lower than the determined SOR, the relevant Bank shall win all

SBSN Reverse Repo Transaction bids submitted; and

- b) in the event that the Margin of SBSN Reverse Repo Transaction submitted by the Bank is equal to the determined SOR, the relevant Bank shall win all or a part of SBSN Reverse Repo Transaction bid submitted based on a proportionate calculation by rounding the amount to the smallest nominal amount of Rp1,000,000.00 (one million rupiah).

Examples of the determination and calculation of quantity of a winner of SBSN Reverse Repo Transaction based on fixed rate tender and variable rate tender methods are provided in Appendix 2 which forms an inseparable part hereof.

- c. In the event that Bank Indonesia offers more than 1 (one) series of SBSN in SBSN Reverse Repo Transaction auction, Bank Indonesia shall determine the allocation of SBSN series and nominal value won by the Bank.
- d. Bank Indonesia may determine that there is no winner in a SBSN Reverse Repo Transaction auction.

10. The Announcement of the Results of SBSN Reverse Repo Transaction Auction

Bank Indonesia shall announce the results of a SBSN Reverse Repo Transaction auction after the closing of the window time by using the following methods:

- a. individually to the auction winner through BI-SSS including, among other things, the nominal value, the Margin of SBSN Reverse Repo Transaction, the type and series of SBSN won; and
- b. comprehensively through the BI-SSS, LHBU System, and/or other facilities including, among other things, the nominal amount of all incoming bids, bid rate of the Margin of SBSN Reverse Repo Transaction and weighted average of the Margin of SBSN Reverse Repo Transaction.

III. THE SETTLEMENT OF SBSN REVERSE REPO TRANSACTION

1. The settlement of SBSN Reverse Repo Transaction through BI-SSSS shall be conducted by using gross to gross and delivery versus payment (DVP) settlement mechanism.
2. The settlement of SBSN Reverse Repo Transaction includes the following:
 - a. First Leg Settlement
 - 1) Bank Indonesia shall conduct the first leg settlement by no later than 1 (one) business

day following the announcement of the results of SBSN Reverse Repo Transaction auction.

- 2) The Bank must have sufficient funds in the Demand Deposit Account for first leg settlement.
- 3) The first leg settlement shall be conducted through the BI-RTGS and BI-SSSS Systems as follows:
 - a) Fund settlement, by debiting an amount equal to the value of the first leg settlement from a Bank Demand Deposit Account; and
 - b) Securities Settlement, by crediting an amount equal to the nominal value of SBSN won from a Securities Account.
- 4) The value of the first leg settlement shall be calculated as follows:

- a) In case of Long-Term SBSN

$$\text{First leg value} = \left[\begin{array}{c} \text{Nominal Value} \\ \text{of Securities} \\ \text{subject to reverse repo} \end{array} \times \left(\frac{\text{Securities Price}}{\text{Price}} - \text{Haircut} \right) \right] + \frac{\text{Accrued coupon/return}}$$

- b) In case of Short-Term SBSN

$$\text{First leg settlement value} = \left[\begin{array}{c} \text{Nominal Value of} \\ \text{Securities subject to} \\ \text{reverse repo} \end{array} \times \left(\frac{\text{Securities Price}}{\text{Price}} - \text{Haircut} \right) \right]$$

Notes :

Securities Price : Securities Price as announced in the BI-SSSS on the date of the SBSN Reverse Repo Transaction.

Haircut : Haircut as announced in the BI-SSSS on the SBSN Reverse Repo Transaction

Accrued coupon or return : - Accrued coupon or return shall be calculated as from 1 (one) day after the date of the last coupon or return payment up to the date of the first leg settlement.

- Calculation of accrued coupon or return of SBSN shall be based on the total number of actual days (actual per actual).

- 5) In the event that the fund in the Demand Deposit Account of the Bank is insufficient to fulfill the settlement obligation until the cut off warning of BI-RTGS System leading to the failure of the first leg settlement, BI-SSSS shall cancel the SBSN Reverse Repo Transaction automatically.
- 6) Upon the cancellation of SBSN Reverse Repo Transaction as referred to in point 5), the Bank

shall be subject to a sanction as provided for in Bank Indonesia Regulation concerning Sharia Monetary Operations.

- 7) In the event that in the same auction there are more than 1 (one) cancellations of (first leg) SBSN Reverse Repo Transaction, the said cancellations of transaction shall be calculated as 1 (one) cancellation in the calculation of sanction in the form of temporary suspension from its participation in the OMS activities.

b. Second Leg Settlement

- 1) On the maturity date of the SBSN Reverse Repo Transaction (second leg), BI-SSSS shall conduct the second leg settlement automatically as from the opening of the BI-RTGS System up to the cut-off warning of the BI-RTGS System.
- 2) The Bank must have sufficient type and series of SBSN in the Securities Account for the second leg settlement.
- 3) The second leg settlement shall be conducted through the BI-RTGS System and BI-SSSS as follows:
 - a) Settlement of securities, by debiting an amount from the Securities Account

which is equal to the nominal amount of the SBSN subject to the reverse repo.

- b) Fund settlement, by crediting the Demand Deposit Account of the Bank in an amount equal to the second leg settlement value.
- c) The second leg settlement value shall be calculated as follows:

Secondleg

First leg

Value of SBSN

settlement = settlement + ReverseRepo Transaction Margin

value

value

in which :

The Value of the Margin of SBSN Reverse Repo Transaction shall be the amount of profits of the Bank in accordance with the period of the SBSN Repo Reverse Transaction.

- d) In the event that the Bank receives a payment of coupon or return within the period of the SBSN Reverse Repo Transaction, such coupon or return shall be deducted from the liability of Bank Indonesia in the second leg with the calculation as follows:

Second leg Settlement Value = First Leg

Settlement Value + Value of the Margin

of Reverse Repo Transaction – Value of coupon/return received by the Bank

- e) In the event that Bank receives a payment of coupon or return, the calculation of the Margin value of the SBSN Reverse Repo Transaction as from the date of the payment of coupon or return shall be based on the value of the first leg settlement less the value of the coupon or return received.
- 4) In the event that after the SBSN Reverse Repo Transaction occurs, the date of the (second leg) SBSN Repo Reserve Transaction is determined as a holiday by the government, the settlement shall be conducted on the subsequent business day by disregarding the additional value of the Margin of SBSN Reverse Repo Transaction Margin accruing on the intended holiday.
- 5) In the event that the types and series of securities in the Securities Account are insufficient to fulfill the obligation of the second leg settlement until the cut off warning of the BI-RTGS System leading to the failure of the second leg settlement, BI-SSSS shall cancel the matured SBSN Reverse Repo Transaction (second leg).

- 6) Failure of the second leg settlement:
- a) In the event that bank fails to conduct the second leg settlement, the SBSN Reverse Repo Transaction shall be treated as an outright purchase transaction by the Bank.
 - b) The calculation of the settlement value of the outright SBSN purchase transaction by the Bank shall be as follows:
 - (1) Short-Term SBSN
$$\text{SBSN Purchase/Sale Settlement Value} = [\text{Nominal Value of SBSN} \times \text{SBSN Price}]$$
 - (2) Long-Term SBSN
$$\text{SBSN Purchase/Sale Settlement Value} = [\text{Nominal value of SBSN} \times \text{SBSN Price}] + \text{Accrued coupon/return}$$

Notes:

- SBSN Price : SBSN Price on the first leg transaction.
- Accrued coupon or return : Rights to SBSN coupon or return calculated as from 1 (one) day following the date of last coupon or return payment up to the date of

outright settlement.

- c) Bank Demand Deposit Account shall be debited in an amount equal to the Haircut value determined in the first leg transaction.
- d) The Demand Deposit Account of the Bank shall be debited in an amount equal to the value of coupon or return accruing as from the date of the first leg transaction up to the date of the second leg.
- e) Due to the failure of the second leg settlement, Bank Indonesia shall not pay the Margin of SBSN Reverse Repo Transaction to the Bank.
- f) Due to the cancellation of a due (second leg) SBSN Reverse Repo Transaction as referred to in point b.5), the Bank shall be subject to a sanction as provided for in Bank Indonesia Regulation concerning Sharia Monetary Operations.
- g) In the event that there are more than 1 (one) cancellations of matured SBSN Reverse Repo Transaction on the same

day, the cancellations of transaction shall be only calculated as 1 (one) cancelation in the calculation of sanction in the form of temporary suspension from participation in the OMS activities.

7) SBSN Coupon or Return

In the event that the Bank receives a payment of coupon or return after the maturity of SBSN Reverse Repo Transaction (second leg), Bank Indonesia shall debit from the Demand Deposit Account an amount equal to the value of the coupon or return on the date on which the coupon or return is received.

IV. SANCTION IMPOSITION PROCEDURES

1. In the event of a cancellation of SBSN Reverse Repo Transaction settlement as referred to in points III.2.a.5) and III.2.b.5), the Bank shall be subject to the following sanctions:

a. a written reprimand, with a copy to:

- 1) The Directorate of Sharia Banking, in the event that the sanction is imposed on a Bank having its head office in the operational area of Bank Indonesia Head Office (KPBI); or
- 2) The Bank Supervisory Team at Bank Indonesia Regional Office (KBI), in the event that the

sanction is imposed on a Bank having its head office in the operational area of Bank Indonesia Regional Office (KBI);

- b. a financial penalty of 0.01% (one per ten thousandth) of the nominal value of the cancelled SBSN Repo Reverse Transaction, with the minimum amount of Rp10,000,000.00 (ten million rupiah) and the maximum amount of Rp100,000,000.00 (one hundred million rupiah); and
 - c. without prejudice to the sanctions as referred to in letter b, in the event that the Bank has cancelled OMS transactions three times during a period of 6 (six) months, the Bank shall be subject to a sanction in the form of temporary suspension from its participation in OMS for 5 (five) consecutive business days.
2. In the event of cancellation of transaction as referred to in point III.2.b.5) and SBSN price market in the second leg is higher than the price in the first leg transaction, in addition to the imposition of the sanction as referred to in number 1, the Bank shall be subject to an additional financial sanction in the amount of the difference between the price in the second leg transaction and the price in the first leg, after being multiplied by the nominal value of the SBSN subject to the reverse repo.

3. The written reprimand as referred to in point 1.a and notification of sanction in the form of prohibition from submitting request for reverse repo as referred to in point 1.c shall be delivered within 1 (one) business day following the cancellation of the transaction.
4. The financial penalty as referred to in point 1.b and additional sanction as referred to in number 2 shall be imposed by debiting the Demand Deposit Account of the Bank within 1 (one) business day following the cancellation of reverse repo.

V. CLOSING

The provisions set forth herein shall come into effect on December 1, 2011.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

HALIM ALAMSYAH

DEPUTY GOVERNOR